



## U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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*Assuring basic food security involves revitalizing agricultural production, job creation, and purchasing power for as many Afghans as possible, while also restoring access to basic health services, especially for women and children. This approach will start to encourage farmers to abandon poppy cultivation in favor of other cash crops. This effort will create jobs – livelihoods – and that will give young men something to do beyond joining a militia.*

*– Andrew S. Natsios, USAID Administrator*

### *U.S. Agency for International Development: Afghanistan Recovery and Reconstruction Strategy*

#### **I. OVERVIEW**

Afghanistan is at a unique crossroads. On the one hand, its physical, educational, and social infrastructure have been reduced to rubble. Estimates suggest that over 50 percent of the population lives in absolute poverty, with average life expectancy only 46 years. Afghans experience exceptionally high levels of malnutrition and maternal and child mortality, and up to 7.5 million Afghans are estimated to be dependent on external food aid. Approximately one-third of the world's polio cases are in Afghanistan. Unemployment is 50 percent or higher, with the illiteracy rate as high as 70 percent. The worst drought in 30 years has pushed Afghanistan close to famine in the past year.

On the other hand, there are already signs of economic activity re-emerging around the major city centers despite the on-going war. And, the United States and its allies have recognized that Afghanistan's recovery is vital to world security. We know that strategic, sustained investment in national reconstruction, if guided by a determined national leadership, can build a strong and reliable ally. Contingent upon the security environment, the goal of reconstruction in the near-term is to enable Afghans to re-establish their lives and livelihoods and reduce their vulnerability to crisis after 23 years of war and 4 years of drought. While Afghanistan will continue to need assistance and investment for years, in the near-term, its dependence upon emergency assistance can be greatly reduced. USAID is ready to confront the challenges of Afghan reconstruction, and has identified a framework for accomplishing this vital U.S. aim in the current war against terrorism and extremism around the world.

The USAID framework views agriculture as a cornerstone of recovery and a pillar of reconstruction for a sustainable future. This view emerges from understanding both the unstable, factionalized macroeconomy of present-day Afghanistan and the severe poverty constraints keeping so many Afghan families from reconstructing their livelihoods. USAID, therefore, has adopted the broad goal of facilitating an agricultural bridge from pervasive poverty and hunger to sustainable livelihood improvement and economic growth. USAID will foster farm and non-farm income earning options while addressing

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*The U.S. Agency for International Development has provided economic and humanitarian assistance worldwide for more than 40 years.*

continuing humanitarian concerns and providing support needed to help the Afghan government<sup>1</sup> gain credibility and to reinforce local capacities for peace. More specifically, four program elements are: a) revitalizing agriculture and other livelihood options; b) enhancing educational opportunities; c) improving health; and, d) strengthening Afghan institutions to assure stability. USAID investments will follow a geographic focus and several guiding principles that make our program cognizant of and responsive to critical constraints of the war-torn, drought-stricken Afghanistan of today.

## **II. THE TWIN CHALLENGES: PERVASIVE INSTABILITY AND THE POVERTY TRAP CONUNDRUM**

### **Pervasive Instability: A Macro-Level Challenge**

At the broadest level, Afghanistan is striving toward peace and economic stabilization. The challenge of socio-economic instability is complex and deep-rooted. Today Afghans have neither the security of person nor security of property needed for peace and prosperity. Legacy effects on governance of decades of sequential crises in Afghanistan have left both political and economic institutions in a very fragile state. For example, electoral democracy, the justice sector, the central bank, the media and key line ministries such as agriculture, health and education have all been weakened severely during the Taliban regime and prior wars. Investment and entrepreneurial spirit have been deterred and the macro-economy fragmented.

Emerging from this weakened state, today there are four economies in Afghanistan that coexist and are intertwined, competing for resources and economic turf. These economies are 1) the poppy economy, 2) the war economy, 3) the humanitarian assistance economy and, 4) the agricultural economy. Each is described briefly below to give a better sense of the challenge of generating macroeconomic growth in a civil and sustainable manner.

#### ***The Poppy Economy***

Afghanistan has “benefited” from a robust poppy economy, which produces 70 percent of the world’s heroin and thrives on unemployment, indebtedness, and lack of legitimate public services from national or regional governments. While accounting for illicit activity is not precise, the International Crisis Group (ICG (2001)) reported that at least 30% of Afghanistan’s population were involved in some way in the poppy economy – cultivation, production, or trafficking – including some women and children. The ICG also reports drug addiction on the rise in Afghanistan and in surrounding parts of Central Asia. According to Pakistani author Ahmed Rashid, approximately 58% of the heroin produced is now consumed in the region. Addiction rates in neighboring countries have skyrocketed – from zero in 1979 to an estimated 5 million in 1999 in Pakistan and as high as 3 million addicts in Iran.<sup>2</sup> In 1999, an estimated 91,000 hectares of poppy were grown and there were as many as 200 processing facilities in country. The United Nations Drug Control Program (UNDCP (2001)) estimates suggest that nearly 1 billion dollars of income was generated, at farmgate, in 2000. The high-value of poppy crop meant that it was good collateral for rural credit for the poorer households and a source of savings for others.

<sup>1</sup> Afghan Interim Authority, initially, and subsequently the Transitional Authority.

<sup>2</sup> Rashid, Ahmed (2001), p. 122

With cultivation in 19 of 29 provinces -- much of it concentrated in a few provinces on prime quality, irrigated land -- and with such high market value, the impact on the macro economy cannot be underestimated. The Taliban and the regional commanders also gained revenue through taxing drug production and commerce. The poppy economy was dramatically downsized when the Taliban sought to curtail it, although many argue that the reduction was merely intended to increase the value of heroin stocks in Taliban possession. Drought also has had some impact on poppy production. Production estimates show a drop from roughly 3,300 metric tons of raw poppy to only 185 metric tons in 2001, reducing farmgate income to \$56 million. For many, this 'crop failure' meant loss of income and of collateral for outstanding loans by small farmers. On the other hand, the remaining crop and stockpiles from past years had significant value -- the price of poppy increased ten-fold. A resurgence of the poppy economy is underway, with farmgate income estimates of \$750 million for 2002. This is inevitable if a legitimate, alternate economy does not grow and if enforcement of prohibitions is not effective.

### ***The War Economy***

In the absence of rule of law and in a fragmented society, the drug trafficking economy is intertwined with the economy of arms trafficking and war. Given its location at the crossroads of Asia and the resulting complex ethnic makeup, Afghanistan is no stranger to conflict. Twenty-three years of conflict have introduced distortions to revenue generation and use, both at the national and individual levels, for Afghanistan, creating a war economy. The Cold War resulted in the U.S. and Russia pumping billions into Afghanistan in the 1950s and 1960s. As a result, by 1972, 40% of Afghanistan's revenues came from abroad. Neighboring countries have continued to fuel the factional conflict by providing money and weapons to those groups that serve their interests. Each faction controls border crossings and hence the revenue generated from trade and illicit smuggling. Resources collected by the competing factions are heavily used to support militias and buy more weapons and only secondarily benefit local communities.

The consequent conflict and violence, in turn, destroys opportunities for productive employment. As a result, young men with virtually no education and limited skills have few income generating alternatives but to participate in a militia or make a living from criminal activity. Even though there is an ongoing war and continuous civil instability, the set of economic activities within the "war economy" is not so strictly mapped to war but also reflects on-going feudal and wild-west approaches to control of economic resources. The "war economy" is comprised of kidnapping, looting, the arms trade, black market activity, and the brokering of violence. "Traders" in this economy market arms and stolen goods and even provide money-lending services, sometimes holding human collateral. Against this backdrop, today a multi-ethnic government is being built to provide some rule of law, but this historic innovation will require time and significant resources to take root and flourish. Presently, local authorities are tenuously, at best, able to hold down criminality and violence.

### ***The Humanitarian Aid Economy***

Afghanistan has always been a desperately poor country and the on-going drought has pushed Afghanistan close to famine in the past year. In 1998, ICRC estimated that widow-headed households totaled 98,000 and disabled-headed households totaled 63,000. These groups combine with the many other people who have lost their livelihoods to crisis and have limited access to food, water and shelter. Accurate estimates are not yet available, but no one doubts that the vulnerable population is extensive. Approximately 7.5

million out of a total population of 25 million are believed to need food aid and presently upwards of 25% of Kabul's population are receiving food aid. Between 1996-2001, the U.S. alone provided half a billion dollars in emergency assistance to Afghanistan. In 2001, the international community provided over a billion dollars.

USAID has been creative in programming this assistance with a focus on "developmental relief" that helps to rebuild Afghan coping mechanisms and mitigate their vulnerability to crisis while meeting their immediate needs. While this assistance has been critical in averting famine and saving lives, it is not sustainable. Prior to September 11, the international community was showing signs of "donor fatigue" in Afghanistan, resulting in the U.S. Government becoming the primary donor for emergency assistance. Now, with an influx of money and people as donor assistance is scaled up again, some concern is expressed about distortions introduced to local markets, especially for housing and skilled labor, with prices escalating rapidly out of reach of the local economy. Food aid can, potentially, also cause price distortions unfavorable to local production. Moreover, thousands of refugees and IDPs are returning to areas that cannot support them, increasing humanitarian requirements while threatening the fragile infrastructure base of the host communities. These concerns point to a natural tension between immediate relief and longer-term development and to the need for a vision *a priori* that contemplates both.

### ***The Agricultural Economy***

Agriculture has always been a mainstay of the Afghan economy and culture employing the vast majority of Afghans prior to the war. Only 15% of the total area of Afghanistan is arable and 46% is in permanent pastures. Yet, over 75% of the total population was rural prior to the beginning of the drought and their livelihoods revolve around agriculture. Agriculture generates 53% of GDP and the sector employs 70% of the labor force. Historically, Afghanistan has shown itself able to be self-sufficient in food production and to engage in significant primary exports of cattle and basic horticultural products. Products include wheat, fruits and nuts, cotton and livestock (meats, pelts, and wool).

Today, however, less than 6% of the total area of Afghanistan is currently in production. Water access is a major constraint on putting land into cultivation and increasing productivity. Irrigation systems were not well developed – only 35% of cropland is irrigated – and infrastructure has suffered damage from war. Natural precipitation provides an unreliable flow of water, with spring floods and summer shortfalls. Presently, much of the country is in a very severe drought that is expected to continue this year. Even major rivers have run dry in some parts of Afghanistan. El Niño effects threaten to cause further havoc. Nonetheless, with good resource management and adequate technology, these water resources can be more effectively managed (Sloane, 2001).

At the current crossroads, Afghanistan need not merely build back the agriculture of the past, but rather to construct a modern agricultural economy that capitalizes on opportunities posed by globalization, information technology, high-yielding varieties, drip irrigation and other "new-era" developments. Afghanistan's potential comparative advantage in horticultural and livestock products, for example, will meet significant demand in rapidly expanding global markets. Afghans are known as good farmers and sharp entrepreneurs who can be expected, with favorable conditions, to transform subsistence agriculture into a vibrant rural economy with market production, value-added post-harvest processing, livestock

enterprise and corollary economic services creating employment and growth. This sort of economic reactivation is essential in the competition with a labor-intensive, high-value narcotics market.

More generally, the work of scholars such as John Mellor and Peter Timmer is increasingly pointing to the importance of agriculture for sustainable economic progress. Agricultural growth, in many circumstances, brings sizeable impact on growth rates, employment and poverty reduction. Agriculture has direct impact on income and also spawns multiplier effects as farmers purchase goods and services including those produced by micro and small enterprise and poorer persons. These views are clearly relevant to Afghanistan's reconstruction.

### ***A Summary Perspective on the Macro Challenge of Instability***

The poppy economy and the war economy menace the region and the world as a whole. The humanitarian economy is vital now, yet it cannot be sustained. In the long term, humanitarian aid discourages the shift toward a self-supporting economic, social and political system that meets the nation's basic needs and offers the promise of growth and prosperity. The agricultural economy, on the other hand, offers a viable path to sustainable improvement in livelihoods and potential for trade-led economic growth. The progress made in controlling the poppy trade will continue only to the extent that other options are found for the vast numbers of poor who live in the more remote, rural areas. In fact, a healthy agricultural economy will dampen the energy of illicit and violent markets, rise from and replace the humanitarian aid economy and sow prosperity in both rural and urban areas.

However, there must be enough security in rural areas to allow commerce to function and the rule of law to prevail. Rebuilding the foundations of a capable state is critical today for engaging in agriculture and for having the capacity to absorb humanitarian assistance. These foundations are, in fact, also the "first needs" or preconditions for trade and investment.

### **The Poverty Trap:<sup>3</sup> A household-level challenge**

As a result of decades of conflict, severe drought, governmental mismanagement and consequent loss of opportunity, especially for women and girls, the Afghan people are caught in a "poverty-trap" situation, where they, like many of the world's poor, "can't get ahead for falling behind" (Barrett and Carter, 2001). In a poverty trap, the asset level of the poor falls under a threshold below which poverty becomes chronic and reinforcing rather than transitory. In the face of dysfunctional markets, especially for credit, insurance and labor, asset-poor households make rational choices under short-term constraints or for mere survival that have perverse effects in the long-term. Essentially, in the face of economic and/or natural vulnerability, families adopt destructive coping strategies that compromise their future (Carter and Barrett, 2000). Afghans have had difficulty in developing constructive coping mechanisms for drought, unlike with the conflict-related threats they face, resulting in the depletion of the asset base of many Afghan families and plunging them deeply into debt (Lautze, 2002). These self-enforcing decisions reduce both the availability and the productivity of resources from which a family can sustain itself and improve its situation.

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<sup>3</sup> Barrett, et al. (2002) explain the notion of poverty traps and provide interesting anecdotes from Kenya and Ethiopia. They focus on natural resource degradation and identify "root causes" in the lack of access to rural factor markets, particularly capital. We extend this concept to the situation of war and famine-induced loss of productive assets in Afghanistan.



Poor farmers, for example, “overexploit” water and land resources to meet immediate needs, but the resulting scarcity and degraded quality mean even less likelihood of meeting consumption needs in the not too distant future. Afghanistan is no exception. It has suffered from major soil degradation, overgrazing, deforestation and desertification due to such overexploitation that threatens the already fragile environment as the remaining trees are cut for fuel and water quality declines.

Poor farmers keep children out of school to eke more productivity from their farms. Yet, this comes at the expense of future productive capacity through know-how and innovation. While children can and do play important roles in the household, e.g., helping with the farm chores or taking care of siblings, anecdotal evidence suggests that poor rural Afghans are pushing children far beyond healthy roles in household welfare to engage in irregular, potentially harmful activities and to migrate away from home in hope for opportunity or to work in exchange for debt relief. In other words, extreme poverty is leading Afghans away from the choice to invest in sending children to school.

Similarly, economic and natural vulnerability leads to the decapitalization of animal, seed and tree stocks. Livestock are sold to honor debts and are devastated by drought; seeds are consumed rather than stored for the next season; and trees are not adequately attended to or suffer from inadequate water supply.

Overlapping and reinforcing all of these patterns is a debt gridlock that is very severe today in Afghanistan. In some areas, reports of debts of up to 30 times average annual income are being observed e.g., some farmers in Helmand reportedly carry as much as \$8200 debt when average income is less than \$250 per year. Farmers are also reportedly rolling debts forward from as many as five years past. Many men, shamed by debt, are apparently not out engaging in finding a way forward but rather sending their children out looking for mercy or work of all sorts to help the family survive.

### *A Summary Perspective on the Poverty Trap Situation*

As an enterprise stripped of its capital base has a hard time putting even the best idea into the marketplace, so a household stripped of its asset base will have a hard time earning its livelihood. Unlike the poor in more favorable scenarios, the dire state of affairs in Afghanistan means that the typical household’s base of *all* kinds of capital is depleted. Illness and malnutrition, and the lack of educational opportunities will continue to take a toll on the quality and availability of human capital. Left unchecked, water scarcity and distribution constraints, environmental degradation, land use limitations due to mines and distress sales of land will continue to take a toll on the quality and quantity of natural capital. Left unchecked, the debt crises at the household level will continue to stretch financial capital, limiting even the most immediate investments, such as in seasonal agricultural inputs. And even more dire situations can be anticipated if the household debt crisis drives further loss of family land and labor resources to debt collection. Finally, left unchecked, the erosion of kinship networks and licit governance structures will continue to weaken social capital.

In Afghanistan, since the 1970s, critical local and national public goods were also decimated – vital transportation and communications infrastructure, market and scientific information services, water distribution and sanitation systems, etc. As a consequence, the links between macro and micro-economic spheres are broken. Even families outside the major city centers such as Kabul and Herat, whose assets

have survived drought and conflict, might find limited opportunity to move beyond subsistence to engage profitably in market-driven production without linkages from hinterland to market towns and from market towns to national and regional markets.

### **Between the Challenges: An Agricultural Path Forward**

From the previous descriptions, it is clear that without urgent attention to rural livelihoods (the demand side of food security), Afghans will continue to be displaced from rural areas, reengage in the illicit economy, or simply suffer on in poor health and without hope of a future. Without urgent attention to agricultural productivity, shortfalls in local food availability (the supply side of food security) will prolong the need for humanitarian assistance. This food security argument for attention to the agricultural sector extends also to the longer-term need for economic growth with poverty reduction. Drawing evidence from around the globe, Mellor (2002) makes a convincing case that an agricultural path will create more poverty-reducing growth than will growth in other sectors of the economy. Recent data on India show that 80% of the reduction in poverty achieved by the late 1990's is attributable to agricultural growth (Mellor, OECD).<sup>4</sup>

In sum, the challenge posed by the four competing economies that have arisen from pervasive instability and by the poverty trap conundrum – “the twin challenges” – mean that agriculture is central to recovery and reconstruction strategy but that the package of investments within that strategy needs to be distinct from traditional agricultural assistance programs. Specifically, the strategy must account for critical constraints of a war-torn, famished society and recognize the limits of agriculture sector capacity to absorb the full burden of need for resettlement, employment and food availability. For some, urban solutions will be needed. In this context, investments in fundamentals such as education and basic health services are critical underpinnings of a stable path to economic recovery and contribute to short-term stabilization efforts as well. Strengthening Afghan institutions is critical to a secure enabling environment – ultimately, good “economic governance” will sustain resolution of the twin challenges. Demining and security sector strengthening condition the context for assistance to be effectively implemented.

### **III. USAID’S STRATEGIC APPROACH**

In the near-term, USAID hopes to reduce the need for humanitarian assistance and, over the longer term, transition to a development program that will move Afghanistan’s economy forward. As stated, USAID has adopted the broad goal of facilitating an agricultural bridge from pervasive poverty and hunger to sustainable livelihood improvement and economic growth. USAID will foster farm and non-farm income earning options while addressing continuing humanitarian concerns and providing support needed to help the Afghan Government gain lasting credibility and to reinforce local capacities for peace. More specifically, four program elements for investment and policy-dialogue are: a) revitalizing agriculture and other livelihood options; b) enhancing educational opportunities; c) improving health; and, d) strengthening Afghan institutions to assure stability. Our investments, particularly in revitalizing agriculture and other

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<sup>4</sup> Both Timmer and Mellor, however, make the caveat that the ability of agricultural growth to affect poverty is hampered by extreme inequality in land and income e.g., in much of Latin America. This argument extends to growth in general and might become relevant if reconstruction in Afghanistan brings concentration of resources and does not adequately address rural finance issues.

livelihood options, will be focused geographically to increase impact and target pockets of most acute need. As planning and implementation proceeds, USAID is adopting guiding principles that will ensure that the investments in each of these four program elements are cognizant of and responsive to critical constraints of the war-torn, drought-stricken Afghanistan of today. A brief explanation of each program element in relation to the overall goal follows. (See Annex 1 for a more specific list of interventions.)

### ***Revitalizing Agriculture and Other Livelihood Options***

This first program element is the keystone. Food security means increasing the availability of food through production and marketing as well as ensuring that families have the income to purchase food. Equally important in the Afghan context is water security – for drinking, hygiene, livestock, crop production, and maintenance of shelter. The basic factors of agricultural production, thus, need rehabilitation first – wheat and vegetable seeds, irrigation and water supply control, animal traction, and fertilizer. Restoration of tree crops, livestock products and other commercial crops must also occur in the short-term so that farmers can move from subsistence to market-oriented production and employment in the sector can grow. Also as Mellor says, attention to economic policy and support for the provision of public goods that benefit small-holder farmers (e.g., water control and extension services) are clearly required if agricultural growth is to bring broad prosperity. Finally, assistance with management of water resources is essential.

To help reactivate the rural economy and increase small farmer incomes, USAID is helping farmers re-establish production by providing seeds, fertilizer, and other inputs. Technical assistance to help get economic policy off to a good start, particularly for market-oriented agricultural price policy, food safety, and export promotion, is also being supported. USAID is seeking ways to provide production credit to small farmers. Working capital will act not only as a stimulus for food and cash crop production as well as for small livestock production, but will act as an incentive to avoid the planting of opium poppy as a cash crop. Additionally, USAID is investigating avenues of providing microfinance to urban entrepreneurs for activities that are not related to production agriculture (these activities will likely be preponderantly managed by women, according to Afghan tradition). Finally, to reinvigorate agricultural markets, USAID will invest in improved post-harvest processing of high value crops so that farmers gain higher prices for their product.

To further shape USAID's assistance, Sue Lautze (Director of the Livelihoods Division of the Feinstein Famine Center at Tufts University) recently conducted an in-depth field survey in Afghanistan of constraints on livelihoods and drivers of vulnerability, particularly food and water insecurity. She highlighted two key constraints on revitalizing the rural economy – water and cash. First, her findings suggest that in some areas of the country drought has not ended and in those areas where it is abating, it will be years before the communities fully recover. Therefore, USAID is assisting the Afghan authorities and the United Nations through the provision of monitoring services for rainfall, snow pack, and weather conditions that will affect the productivity of agriculture, the availability of drinking water for humans and livestock, and the generation of electricity. In addition, USAID will assist the Afghan authorities to harmonize water policy among the competing uses. Our assistance must be adapted to local conditions, improving irrigation and water supply systems where sufficient water is expected and promoting water conserving solutions in areas where water is the constraint to human settlement. Potential agricultural solutions include drip irrigation rather than open canals and drought resistant crop varieties; all seeds procured with USAID funding are drought resistant.



Second, Lautze's investigation reinforces our view that reducing cash constraints and debt burdens is also a critical short-term need. USAID acknowledges the cultural sensitivity required in dealing with debt and sees two possibilities to cope with the crushing debts incurred in the recent past. First, farmers are willing to earn their living and repay their loans if sufficient income-earning options were to become available. Second, the substantial debt accumulated over the years of drought could perhaps be formalized and rescheduled. The most difficult challenge, should the latter approach be adopted, would be the discovery of a culturally acceptable means to transfer the informally held debt held within families and to local merchants into a formal debt that could be rescheduled at lower interest rates and to stretch out payments. In addition to following Afghan customs, the solution must operate within an Islamic framework. Such a solution depends on innovation, since it has not been encountered before, and would be greatly helped by an end to the drought. Analysis to identify possible options will be conducted in the near-term so that in the second year of reconstruction, it might be feasible for rural financing schemes to be put in place to alleviate the debt burden.

In sum, over the next four growing seasons (two years), USAID-supported distribution of 48,000 MT of improved, drought-resistant wheat seed has the potential to increase agricultural production by 772,000 MT, or one-third. As Lautze recommends, over the next two years USAID will also focus attention on infusing cash into the economy while addressing critical infrastructure bottlenecks through the rehabilitation of farm to market roads as well as water and irrigation systems. Over time, as the crisis diminishes and government capacity is restored, attention to broader issues such as trade capacity building, property rights and capital infrastructure investments in transport and communications will be needed to facilitate trade, investment and finance. That said, USAID is already playing a lead role in addressing some key agricultural trade related policy issues such as quality control on seed and fertilizer, as well as working to improve plant and animal health. These early "trade capacity building" actions are clearly linked to immediate problems yet illustrate how we can find opportunities within a crisis situation to affect the longer-term scenario.

### ***Enhancing Educational Opportunities***

Education is the second program element. Education is a good in and of itself. It gives people an asset that is hard to take away and is the first source of human capital development. With evidence suggesting that only 40% of Afghan children are attending primary school in 2002 and with diminished quality of the schools they attend, it will be very important to mobilize primary education, skills training and functional literacy as tools for both economic and social stability. The education sector is a critical area for women providing income generation opportunities as teachers. To rebuild a future of education, it is necessary to jump-start the education system immediately. However, it is important to understand, that without economic opportunity growing, poverty-based decision-making will mean that fewer children will attend school. This is why our strategy builds education into a rural economic revitalization strategy. Moreover, non-farm jobs created as agriculture recuperates will create demand for newly educated, rural Afghans.

Education is equally important in combating the war economy. Women, as teachers in the classroom, will be a subtle, but reliable, counterbalance to the warlord culture. The opportunities gained by education are a critical alternative to this culture for young men who have known nothing but conflict for the past two decades. Community level basic education occupies youth in constructive activities and gives much

needed structure to children traumatized by conflict and chaos. Returning children to school reinstates a routine, contributing to a sense of return to normalcy and optimism. Skills training and functional literacy will productively engage demobilized soldiers and landless poor so that they might find alternative sources of income.

### ***Improving Health***

Healthcare, the third program element, is likewise a good in and of itself. USAID believes that food security also means ensuring that poor health is not an obstacle to adequate nutritional gain. Like education, it also is vital to the quality of human capital resources that drive economic productivity. Afghans' health status is one of the worst in the world with an average life expectancy of 46 years and one in four children dying before their fifth birthday. Moreover, Afghans suffer from communicable diseases that can be easily prevented or treated and many lack access to basic health services. In our strategy, primary health care assistance plays multiple roles directly improving the living conditions of those suffering from disease and malnutrition and, at the same time, strengthening their capacity to contribute to economic recovery. Also, service jobs are created and local governance strengthened through health initiatives. In urban areas USAID will also help manage water supply and provide public health assistance against increased water-borne disease.

### ***Strengthening Afghan Institutions to Assure Stability***

The fourth program element is national and local institutional strengthening. This element includes providing support essential to the Afghan government gaining lasting credibility, and to reinforcing local capacities for peace. Early support to Afghan institutions will help ensure enough stability to allow recovery and reconstruction to proceed. Moreover, establishing transparent and participatory political processes and the rule of law are critical to an enduring, capable state. Likewise, re-establishing an informed and more united Afghan citizenry is vital. This will mean helping to rebuild communications and journalistic capacity, including human resources, equipment, and transmission facilities, that were decimated as the Taliban enforced restrictions on access to information and even entertainment.

Additionally, under this program element, support will be directed toward re-establishing basic governance functions that are key to controlling the opium market and to enabling licit enterprise. This includes monetary policy, banking systems reform, and transparent financial management. Finally, institutional strengthening will contribute to improved civil-military relations and the emergence of a robust civil society. While support will be directed to the national government, building local capacity is very important and implementation through community-based initiatives will be significant. Community-based initiatives are not just instrumental in getting services provided to local beneficiaries outside of Kabul, but are critical to rebuilding social capital and income.

### ***Gender Equity***

Gender equity is a theme that crosses all four of the program elements. The role of women needs to be a major consideration in the recovery and reconstruction effort and can be a critical force for peace. Agricultural and other livelihoods must be tapped as a start toward reincorporating women into society by ensuring that women are accorded equal access and empowerment in gaining project benefits. Urban

services related to the delivery of humanitarian assistance and education might act as acceptable and more immediate avenues for engaging women productively. In addition, given that Afghan women once occupied key positions in the country's economic and political base, they are also a critical force that can be tapped for institutional strengthening. Despite the legacy of the Taliban and with consideration of the prior cultural/religious norms, any program of intervention needs to prioritize and integrate specific provisions for women.

### *Geographic Focus*

USAID's strategy will be applied in a balanced fashion that targets nationwide needs such as education, and has the flexibility to provide humanitarian assistance where it is most needed, but that otherwise concentrates activities to achieve rural economic reactivation. More specifically, rural economic assistance activities will be concentrated in a crescent beginning in the southwest, extending through the southeast and ending in the northeast. Investments will be concentrated in 5 – 6 subregions of Afghanistan: 1) Helmand/Arghandab Valleys in Helmand and Kandahar provinces where livestock is the main activity; 2) Shomali Valley in the Parwan and the Tagab Valley in Kapisa Province; 3) Baghlan and Kunduz Provinces where there is high agricultural potential with both rainfed and irrigated crops; 4) several districts in Bamian Province where potato, barley, and short-season wheat are the mainstays and livestock also has some importance; 5) districts in Warda Province where livestock is a major activity; and 6) Badghis Province where, again, livestock is a major activity.

These locations are also strategic with regard to aspects of the internally displaced persons (IDP) problem, counternarcotics, and/or health crises. Essentially, they represent both acute pockets of need and "corridors of opportunity" based first on impact from agricultural projects and then on the scope for application of educational, health and institutional support activities. This "geographic targeting" approach will give coherence across program elements in the short run, create links to a future vision of Afghanistan as a regional trade hub, and decrease stress on resources through more managed urbanization process.

### *Guiding Principles*

In the context of the "twin challenges," several guiding principles are shaping USAID's package of investments across the four program elements of our agriculturally based reconstruction strategy:

- **Reduction of Violence:** Basic security of person and property is a prerequisite to successful recovery. Afghanistan remains divided politically despite the interim government and violence remains a fact of life. Demobilization of combatants to jobs with a stake in civil economy and governance is an important objective. Improved civil-military relations will also reinforce peace.
- **Vulnerability Management:** Our efforts need to help "make time and markets work for the poor"<sup>5</sup> in the face of severe natural and economic risks. This means considering the following.

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<sup>5</sup> Carter, M. (2002). In a recent presentation to USAID/LAC, Carter encouraged USAID to give more attention to how to "make time and markets" work for and not against the poor. This is an essential thrust of the Afghanistan Recovery and Reconstruction Strategy.

- “Do no harm.” Assistance must reinforce local capacities for peace and not reward those who benefit from conflict. Assistance must not undermine Afghan efforts at self-sufficiency or exacerbate vulnerabilities. Careful thought must be given to ensure that agriculture production options for livelihood improvement do not compromise the water security of other poor persons in the near term and that productivity enhancement does not come at the expense of environmental conservation. Attention is also needed to ensure that enhancing food availability and job creation through larger agricultural enterprises does not have unintended negative impacts on land-poor households nor disproportionately benefit the more well-off. Repatriation and resettlement of returnees and IDPs should take place only in those areas where there are the resources, particularly water, to support them.
- Recognize the role of humanitarian assistance in asset creation. Food for work means stronger and more productive agricultural labor. Cash for work, moreover, will allow flexible household strategies to alleviate food constraints and also to alleviate financial constraints on farming and other enterprise (in 2002, our programs will offer some 2.7 million people part- or full-time work).
- We must invest sufficiently to jump-start families out of poverty traps. Finance, education, and agricultural input (seasonal and stock) investments must be robust enough in the near term to move the poor over a threshold that traps them in poverty and tempts them into poppy.
- **Unlock Infrastructure Bottlenecks:** Our infrastructure investments must be strategic. Infrastructure needs should be assessed from an economic perspective and not in isolation or in a stand-alone fashion. We should identify specific infrastructure constraints vital to connecting farms and markets and invest in selected large-scale projects vital to connecting local enterprise to national and international growth. In a first phase, emphasis is needed on local infrastructure to facilitate current opportunity and where needed to allow humanitarian assistance to reach. Foresight is needed today, however, to phase in interregional infrastructure repair and development, e.g., major trucking corridors, natural gas pipelines, etc. Such investments will establish Afghanistan as a regional trade and transit hub whose infrastructure facilitates private income generation and provides a strong flow of public revenue – both important for sustainable recovery.
- **Lay Foundations of a Capable State:** Stabilize the crisis and set the stage for consolidation of democracy, good governance and sustainable economic progress with an emphasis on local capacity building. We must also assist with national-level institution building e.g., the ministry of agriculture and the justice system. The rule of law, transparent political and financial systems, as well as efficient administrative processes, are vital underpinnings of a capable state.
- **Afghan Ownership:** To ensure success and sustainability, specific programming must have Afghan ownership and build upon Afghan traditions and practices. Ethnic balance must also be a key consideration. Afghans have a strong tradition of self-reliance. Programming should reinforce Afghan traditions of community responsibility (Hashriya). Interventions should build upon and increase existing Afghan capacities, both in the NGO sector as well as any nascent governmental entity, and utilize Afghan technical experts. Efforts to encourage the Afghan Diaspora to return and participate in the reconstruction effort should also be encouraged. In essence, existing Afghan capacity is a vital resource to make our interventions viable. Moreover, relying on such will give a broader group of

citizens a stake in the process. This, in turn, will motivate less diversion of productivity to other economies and drive the sustainability of the whole strategy.

- **Coordination among Partners:** In a complex and massive problem, it is essential to ensure that our efforts both build into and follow from other's efforts. We will seek out opportunity for improving overall donor coordination and for partnering. Partnering should both complement our program, e.g. in areas such as justice sector capacity building, and fill in gaps in our program, e.g. financial markets and monetary policy and strengthening local law enforcement. It is important also to watch for and attenuate, to the extent possible, the potentially negative impacts of inconsistent, uncoordinated and expatriate-reliant donor programs. Partnering also means viewing the humanitarian efforts of military forces as parallel programs that can be done without undermining the ability of development assistance to perform.

#### IV. ILLUSTRATIONS OF USAID'S APPROACH IN ACTION

The following examples of our ongoing activities illustrate early impacts from USAID's approach:

##### *Investing in the Restoration of Wheat Seed for Cost-effective Food Security Improvement*

Early data show that investing in seed restoration and fertilizers is a cost-effective way to increase food availability. Local production also creates local income. Delivery of humanitarian wheat grain from the United States to urban consumers in Afghanistan costs USAID \$462 per metric ton, on average, according to DCHA/FFP. The cost of similar wheat grain purchased in Pakistan and delivered to urban consumers is estimated to cost USAID \$379 per metric ton, extrapolating from FFP data. Wheat grain produced in Afghanistan from improved seed and fertilizer is estimated to cost USAID \$155 per metric ton at the farmgate. Private transport of domestic production to urban markets is estimated at \$35 per ton.

The most recent provision of 7,000 MT of seeds, together with fertilizer, is expected to increase spring wheat production in fall 2002 by approximately 100,000 MT and will affect the incomes of 40,000 farmer families. The total cost to USAID per beneficiary family (notionally seven people) in the first distribution is \$387 (under \$60 per person), reflecting the entire cost of seed, fertilizer, and their distribution. This amount will decrease over time as better roads reduce transport costs, and farmers purchase their own fertilizer. As a result of the project, net Afghan wheat production is expected to increase by 772,000 MT by the end of the harvest in spring 2004.

##### *Media Support Activities*

Afghanistan is a radio culture – historically, radio has been relied on for information sharing and entertainment. Under the Taliban regime, communities were isolated as people were forbidden to listen to music, and news and other forms of information were tightly controlled. USAID is helping to restore radio and other media sources for cultural, political and economic uses. For example, USAID's Office of Transition Initiatives (OTI) is supporting a number of activities geared toward assisting the AIA, the Transitional Authority, and local media groups to provide Afghans with greater access to information specifically about the Loya Jirga process and subsequent democratic activities. This includes providing the



national government with national broadcasting capacity from offshore short wave transmitter sites, supporting Radio Afghanistan to provide information about the Loya Jirga process and other high priority activities, and, supporting the Loya Jirga Commission's Public Information Unit. Strengthening the capacity of local radio broadcasters by providing hands-on training, technical assistance and equipment upgrades, and training of local journalists will enhance the professionalism and independence of the media. Finally, the production of both cultural and educational films is being supported as a catalyst to independent video production. These media support activities are being put in place at a critical juncture in the nascent establishment of a credible state, the success of which depends on support from an informed population.

### ***The Helmand Alternative Crops Pilot Project***

Poppy cultivation rebounded in Winter 2001, with approximately 30,000 hectares of poppy being cultivated in irrigated areas of the Helmand River Valley. Farmers chose to cultivate poppy with the failure of the 2001 cotton market and the absence of other marketable crops. Historically, the government-owned cotton gin at Lashkar Gah purchased Helmand cotton. An oil extractor at the gin crushed seed and refined cottonseed oil; other by-products included seedcake for animal feed and soap. The gin bought 6,000 tons of raw cotton that was harvested in September and October 2000, but none from the 2001 harvest, leaving up to 10,000 tons of unsold cotton with the farmers.

The Helmand Alternative Crops Pilot Project targets the reduction of poppy cultivation in three districts of Helmand Province by expanding cotton cultivation and marketing. 5,000-8,000 farmers and their families will benefit from purchase of their unsold cotton stocks. Beginning in late March, 2002, the project has begun to purchase up to 5,000 MT of unsold cotton stocks from crop year 2001 for cash and a pledge to plant new crop cottonseed on lands which are currently under poppy cultivation. Farmers will be closely monitored to ensure that their current poppy crop is eradicated prior to harvest. Cotton will be processed at the gin in Lashkar Gah, and cottonseed will be distributed back to farmers for planting the new crop from March through May. Excess seed will be crushed for edible oil, seedcake, and soap – valuable by-products.

Revenue from export sales will feed a revolving fund for future cotton purchases, upgrading of the gin, and investment in other legitimate export crops. Other alternative agricultural possibilities include processing and marketing of raisins, figs, almonds, and peanuts. Farmers will not be paid for cotton until they have pledged to eradicate their poppy crop. The project will work with local Shuras (councils) and the Governor of Helmand, to cooperate with law enforcement efforts to eradicate poppy fields.

## **V. CONCLUSION: AN AGRICULTURAL BRIDGE TO RECOVERY IN WAR-TORN AFGHANISTAN**

Working with the interim governments of Afghanistan, humanitarian organizations, and the larger international community, USAID has already begun the process of building a safe, stable society that meets the needs of its people. Given the aggregate impact of years of instability, the continuing drought, and the large percentage of the Afghan population being in a poverty trap situation, with the consequent drag on economic growth, a compression of relief and economic recovery is clearly needed.

Recovery and reconstruction in Afghanistan require economic and political stabilization that will lead the “four economies” to become one, free of crime, violence and dependence. This, in turn, requires broad enfranchisement of Afghan citizens in economic and political life. The agricultural economy is the essential engine of progress toward peace and prosperity for the Afghan people. USAID, therefore, has adopted the broad goal of facilitating an agricultural bridge from pervasive poverty and hunger to sustainable livelihood improvement and economic growth. Our strategy recognizes critical constraints to reaching this goal, especially relating to water, and incorporates appropriate response measures.

From agriculture, non-farm rural and urban livelihood options will expand. Corridors of opportunity can be formed around secondary cities that are becoming the hubs for delivering humanitarian assistance and reconstruction services and will be central to strengthening linkages into trade and market corridors nationally and internationally, after basic stability is achieved. Furthermore, much of our capacity to deliver humanitarian assistance and to engage in public works means strengthening Afghan institutions in cities outside of Kabul.

By effective location, timing and sequencing, our initiatives will have quick, direct impact and also spawn indirect rounds of impact. For example, immediate relief efforts that offer cash for work help with hunger crises but also will provide finance for family farming activities. Investment in commercial agriculture will be a source of farm employment and will also generate demand for agro-processing and other rural services and, thus, create non-farm employment.

Our efforts to help lay the foundations of a capable state through institutional strengthening are critical today for engaging in agriculture and for having the capacity to absorb humanitarian assistance. They are, in fact, also preconditions for trade and investment. As a premise, there must be enough security in rural areas to allow commerce to function and the rule of law to prevail. Security concerns will continue to preface our development assistance. Ultimately, good economic governance will sustain resolution of the twin challenges of instability and extreme poverty.

The USAID program of assistance gives a clear priority to basic human security and on immediate reconstruction needs. On the other hand, this strategy calls for a compression of relief and economic revitalization into tandem phases to halt war and famine from driving families down the economic ladder and, at the same time, to stimulate trade and investment as drivers of sustainable economic growth.

Together with the efforts of other donors and with the increasing ability of Afghan authorities to perform essential functions, we strongly believe that the activities started today, with USAID’s assistance, will lead into larger-scale, longer-term initiatives that consolidate progress with recovery and reconstruction.

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## **ANNEX 1: THE ACTION PLAN FOR USAID SUPPORT FOR AFGHAN RECONSTRUCTION**

The USAID program for Afghanistan recovery and reconstruction has begun while humanitarian assistance activities are underway; will build upon those activities; and will continue to reflect the goals outlined in the Deputies Committee Economic Recovery Plan. We expect participation by other USG agencies. The scope of USAID's programs will be refined and adjusted as needs, capacities, and priorities of the Afghan government, and other donor plans, are better known. The programs will be phased in over time. USAID has invested over half a billion dollars in Afghanistan since 1996 for food security, and has been the largest contributor among all donors in the recent past. USAID will continue to dedicate significant resources to address food security and, more generally, to rebuild the economy. It will cost approximately \$1.8 billion over 10 years for USAID to implement the plan outlined below.

USAID will foster farm and non-farm income earning options while addressing continuing humanitarian concerns and providing support needed to help the Afghan government gain credibility and to reinforce local capacities for peace. More specifically, four program elements for investment and policy dialogue are: a) revitalizing agriculture and other livelihood options; b) enhancing educational opportunities; c) improving health; and, d) strengthening Afghan institutions to assure stability. The specific kinds of activities to be funded under each of the four key program elements of USAID's Afghan reconstruction strategy are outlined below. Infrastructure investments do not comprise a stand alone program element but rather, rebuilding the infrastructure is incorporated across the elements through a variety of activities.

### **1. Revitalizing Agriculture and other Livelihood Options**

Reinvigorating the rural economy means ensuring a secure food supply, promoting value-added and exportable production, and stimulating jobs in rural areas and the market towns nearby. Specific attention is required to move farmers out of poppy and into licit crop production from a counter-narcotics perspective as well as simply because poppy cultivation occupies very fertile, irrigated lands. To reinvigorate the rural economy, USAID is:

- Engaging in technical assistance to help get economic policy off to a good start, particularly for market-oriented agricultural price policy, food safety, and export promotion;
- helping farmers re-establish production by providing seeds, fertilizer, and other inputs and innovative approaches to reduce cash-flow constraints;
- rehabilitating irrigation systems and developing targeted strategies for water-insecure regions;
- continuing to provide emergency food aid, particularly to water-insecure regions;
- repairing and rehabilitating economically critical structures;
- rehabilitating key rural infrastructure through cash-for-work and food-for-work projects; and,
- promoting non-farm income generation via microenterprise, community works, etc.

### **2. Enhancing Educational Opportunities**

To reestablish educational opportunities, USAID is:

- providing textbooks and school supplies;

- rebuilding schools, teacher training facilities, and universities; and,
- training teachers.

### **3. Improving Health**

While there are great needs to reconstruct major hospitals, these institutions are beyond the reach of the majority of Afghans and the death toll can more effectively be reduced by using a community-based, low-cost, low-tech public health approach to the problems of malnutrition, acute respiratory, diarrheal and other infectious diseases. To overcome these abysmal health conditions, USAID is:

- providing basic health care services to Afghans;
- providing childhood vaccinations against measles, polio, and other preventable diseases;
- supplying vitamin supplements for young children;
- educating the public on basic sanitation and hygiene practices and malnutrition;
- improving maternal and child health; especially under-served and refugee populations; and,
- repairing clinics and potable water supplies.

### **4. Strengthening Afghan Institutions to Assure Stability**

Support is needed to implement the Bonn agreement, particularly following the Loya Jirga. Our efforts will need to continue throughout the Transitional Authority (2002-04) and the subsequent election process. An approach is needed that will address the most pressing stabilization needs, garner increasingly broad participation in the reconstruction process, and provide jobs. This will mean strong emphasis on improving the capacity of media and other communications systems. The approach also includes re-establishing the presence of civil government in rural areas necessary to the reduction of poppy cultivation and opium trafficking. To shore up support for the national government, and develop local capacity and an increasingly robust civil society, USAID is:

- providing logistical and communications support for the Transitional Authority, and earlier the Interim Authority and the Loya Jirga;
- supporting grants for community-based initiatives to rehabilitate local infrastructure and increase the capacity of communities to meet their needs and define priorities;
- enhancing media capacity and information access through providing radios for local communities, training, and communications infrastructure improvement;
- promoting rule of law to protect basic rights and to permit agricultural production and commerce to function, facilitating rapid resolution of minor disputes (relying on traditional processes to the extent possible), as well as building confidence in the local police and in formal systems of justice;
- supporting the development of a central bank and a commercial banking system;
- rehabilitating key infrastructure such as village-to-market roads and government facilities, with specific attention to key line ministries such as agriculture, education and health; and,
- strengthening local councils, or shuras, to broaden participation in the political process.